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ABSTRACT

This analysis looks at proposals for the 1997 reauthorization of the Higher Education Act. These proposals include graduation-contingent aid providing "incentives" for completion; creation of federal student aid block grants to reduce the federal government's role and provide states and institutions more flexibility in awarding student aid; elimination of aid for students in remedial courses or programs; modification of the Pell Grant program to frontload grants for students in their first 2 years and limit eligibility by program length and type; relocation of vocational and technical programs to the Department of Labor; and use of federal aid as a cost containment device. The analysis suggests that completion incentives assume that factors influencing degree completion are primarily under the control of the student; that focusing aid at the state level through block grants could promote unequal treatment of students; and that eliminating aid for students in remedial courses could impact 13 percent of all undergraduates. The analysis concludes that all of the proposals appear to share a common goal of using student financial aid to address complex social issues and that implementation could seriously impede access to higher education for these students. (JB)

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THE 1997 REAUTHORIZATION OF THE HIGHER EDUCATION ACT: AN ANALYSIS OF THE CURRENT POLICY ENVIRONMENT

BRIEFING DOCUMENT

ADVISORY COMMITTEE ON STUDENT FINANCIAL ASSISTANCE

MARCH 1996

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THE 1997 REAUTHORIZATION OF THE HIGHER EDUCATION ACT: AN ANALYSIS OF THE CURRENT POLICY ENVIRONMENT

PREPARED FOR THE ADVISORY COMMITTEE ON
STUDENT FINANCIAL ASSISTANCE

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MARCH 1996

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FOREWORD

Section 491 of the Higher Education Act (HEA), which authorizes the Advisory Committee on Student Financial Assistance, states that the purpose of the Advisory Committee is to:

- provide extensive knowledge and understanding of the Federal, State, and institutional programs of postsecondary student assistance;
- provide technical expertise with regard to systems of need analysis and application forms;
- make recommendations that will result in the maintenance of access to postsecondary education for low- and middle-income students.

In addition, the Advisory Committee has been specifically charged with "assessing the impact of legislative and administrative policy proposals."

The Advisory Committee's structure, which reflects the diversity of the contemporary financial aid community, enables it to provide Congress and the Secretary with objective technical analyses of important student aid issues. College presidents, financial aid administrators, education association executives, bank officers, guaranty agency executives, state higher education officials, and students have served on the Advisory Committee. Members are appointed by the leaders of the United States Senate and the House of Representatives, and by the Secretary of Education on the basis of technical expertise and knowledge of student aid and educational policy. The eleven members serve in staggered terms of three years.

EXECUTIVE SUMMARY

As the authorizing legislation for the federal government's investment in student aid, the Higher Education Act defines much of the nation's higher education policy. Each reauthorization of the Act allows the opportunity to review the scope and content of the programs and policies that comprise the federal government's role in higher education.

Congress, the Department of Education, and the higher education community all have begun preliminary planning for the 1997 reauthorization, and proposals regarding the future role of the federal government, and the status of student aid programs are beginning to emerge. This paper serves to analyze the ideas and proposals that comprise the current policy environment and their possible effects on access to higher education.

For the most part, the proposals currently circulating do not represent new analyses of the shortcomings of the current student aid system; rather, they recycle ideas presented in previous reauthorizations and other policy discussions. As such, analyses offered in this paper focus on the impact of recent proposals, and their antecedents, on access to postsecondary education. Proposals reviewed in this paper include: graduation-contingent aid; creating federal student aid block grants; eliminating aid for students in remedial courses or programs; modification of the Pell Grant program; differential treatment of vocational/technical students and programs; and using federal aid as a cost containment device. Regardless of their individual objectives, all of the proposals appear to share a common goal of utilizing student financial aid to address complex social issues that are generally tangential to issues concerning equal access to higher education. If enacted, many of these proposals could result in the redistribution of aid resources away from the neediest students, and in combination with each other, could seriously impede access to higher education for these students.

GRADUATION-CONTINGENT AID: The objective of graduation-contingent aid proposals is to encourage greater persistence among postsecondary students by providing " incentives" for completion. Recent policy discussions have proposed that all students demonstrating need receive aid in the form of loans. Upon completion of their degree, students would receive an amount of loan forgiveness equal to their initial need. Several concerns about this approach have emerged:

- *The "incentives" provided by a graduation-contingent aid system are questionable*. A recent report by the U.S. General Accounting Office (GAO) found that additional grant aid of $1,000 for a low-income student reduces the dropout probability by 14 percent. GAO reports that a similar increase in loans "did not significantly affect a student's probability of dropping out." In addition, programs utilizing the loan-forgiveness concept of a graduation-contingent aid system--such as the Perkins Loan program--have met with limited success as the "incentive" has failed to attract many students.

- *A graduation-contingent aid system assumes that the factors influencing degree completion are primarily under the control of the student.* In fact, extensive research has shown that many factors influence a student's decision to remain in school, including social, educational, demographic, and economic issues. A graduation-contingent aid system suggests that student aid is *the* definitive factor; in reality, for many disadvantaged students, financial aid cannot compensate for all of the factors that work against student retention and persistence.

- *Graduation-contingent aid could negatively impact access to higher education for disadvantaged students.* By placing higher requirements on students with need, without a parallel requirement for those who do not need assistance, this proposal holds needy students to a higher standard. This could inhibit some needy students from even enrolling fearing
they would not complete their degree and would be saddled with loan debts.

- *Graduation-contingent aid could increase debt burdens and defaults for the neediest students.* Research has shown that those students who do not complete college are the most likely to default on their loans. Given that almost half of all students who enroll in postsecondary institutions do not complete their education, this approach virtually ensures that the number and dollar amount of defaults would increase.

FEDERAL STUDENT AID BLOCK GRANTS: The objective of creating a block grant system would be to reduce the federal government's role in higher education and provide states and institutions with more flexibility in the awarding of student aid. The proposed block grant mechanisms vary, but their basic operation is the same: resources from several or all current federal student aid programs are combined into a block grant program and awarded to states to distribute according to certain broad guidelines. Several concerns about student aid block grants have been raised:

- *The federal role in higher education varies significantly from the government's role in other program areas that have been block granted.* In other policy areas where block granting has taken place, the primary role of the federal government has been to provide money to support the unique initiatives of individual states. In student aid, the federal government serves several key functions beyond providing over $30 billion in funds annually, it provides: the framework and delivery system for other aid sources (including states and institutions), a national delivery system for federal aid awards, and a central data collection and analytical device. Transferring these responsibilities back to the states and institutions would represent a reversal of the 1992 reauthorization, which had centralized these tasks after it had been found that multiple need analysis models were burdensome and inefficient.

- *The history of federal block grants suggests that student aid block grants would be subjected to declining resources.* For example, programs under Chapter 2 of the Elementary and Secondary Education Act were block granted in 1981; by FY 1995, funding for Chapter 2 had declined in real terms by 50 percent.

- *Under a block grant program, states must assume greater fiscal responsibility, particularly if the federal government reduces its support.* If federal funding levels for student aid were reduced under a block grant system, the burden would fall to individual states to make up any shortfalls. Many state budgets are already strained, and with Congress looking to the states to assume greater responsibilities for other social programs, it is unlikely that the states' limited resources could cover the remainder of the federal government's share.

- *Focusing student aid at the state level could promote unequal treatment of students.* The level of support that different states offer in a block grant system could result in students with the same needs being treated differently. For example, less than 40 percent of the states have a policy to allow students to use grants out of state; of those 40 percent, even fewer actually fund that policy due to limited resources.

- *Current student aid "block grants" like the State Student Incentive Grant (SSIG) program have been poorly funded for more than a decade.* Every President since 1981 has proposed to eliminate funding for this program, and in the current Congress, lower funding levels reflect the diminished standing of this program. In 1994-95, total aid awarded through SSIG was the same as in 1980-81--$73 million--a real dollar decline of more than 50 percent.

REMEDIATION: Proposals regarding remediation focus on precluding remedial students from borrowing, and contracting with institutions to provide remedial instruction. The underlying objective of such proposals appears to be to better target limited resources on students doing "college-level" work. However, numerous concerns have been raised about this approach:

- *Eliminating aid for students in remedial courses or programs could negatively impact both access and retention for low-income students.* A recent report from the American Council on Education (ACE) reveals that students participating in remediation "were more likely to be from low-income families, born outside of the United States, speak a language other than English at home, and attend a two-year institution." For many of these students, access to college and persistence towards a degree is often contingent upon the completion of one or two required remedial courses.

- *A substantial number of students could be affected by this policy change.* The ACE report on remedial education illustrates that about 1.6 million students--13 percent of all undergraduates--participate in at least one remedial or developmental course. A 1994 survey of community colleges indicated that a sizeable portion of students receiving aid are classified as remedial; at these institutions, 43 percent of Title IV aid recipients were enrolled in remedial courses or programs.

- *Federal restrictions on student aid for remediation would entail defining what constitutes "remedial."* In order to enforce a restriction on the use of aid for participation in remedial or developmental classes, some type of federal "standard" would need to be established. This would require the federal government to become directly involved in the content of curriculum, an area in which any government intrusion is unwelcomed by institutions and that is well outside the domain of the aid programs.

- *Alternative mechanisms suggested as replacements for student aid--such as contracting with institutions to supply remedial instruction--virtually assure that most students would not be served.* Currently, students' needs for remediation are met through instruction at their institutions. The federal TRIO programs are the most common resource. But even these successful programs are limited in their impact due to their inability to meet demand: fewer than five percent of eligible youths and adults are served by TRIO programs. By relegating students to a remedial system that is guaranteed to fall short in meeting student demand, the majority of students in need of remediation would not be served.

- *Restrictions on the use of student aid for remedial education already exist under current law.* The impact of eliminating aid for remedial students would be dramatic on an individual level; for these students, access to postsecondary education could be reduced. However, the budgetary impact of eliminating aid for remedial students would likely be minimal, since students are already limited to one year of remediation under current law.

MODIFICATION OF THE PELL GRANT PROGRAM: Because funding levels for the Pell Grant program have not kept pace with rising costs, modifications to the program, including frontloading grants for students in their first two years of college, and limiting eligibility by program length and type, have been suggested. Concerns about such modifications include:

- *Frontloading grant aid could decrease persistence for third and fourth year students.* While frontloading may encourage the persistence of disadvantaged students in the first two years--the period during which most dropouts occur--the loan burden that must be assumed to continue on to completion could be a

powerful disincentive. Many students drop out for reasons other than financial concerns; frontloading would not necessarily impact these students and promote retention.

- *Frontloading could be more expensive to the federal government than the current system.* If frontloading were extended to first and second year students in all sectors, the increased federal investment needed would be substantial. This is because more students are enrolled in the first and second year of college than in the later years.

- *Eliminating grant eligibility for students enrolled in non-degree programs, and/or programs less than two years in length, could increase reliance on loans and reduce persistence.* The availability of grant aid enables students to participate in these programs without assuming significant amounts of loan debt, lessening the possibility that the quality of education and training they receive will leave them with increased debts, but not increased income. But the removal of grant aid could cause students to choose to forego additional education; the consequences of such a decision could have an effect on the individual students as well as the nation as a whole through a less skilled labor force and increased spending on social programs.

DIFFERENTIAL TREATMENT OF VOCATIONAL/TECHNICAL STUDENTS AND PROGRAMS: The notion of relocating programs and institutions involved in vocational and technical instruction to the Department of Labor has received substantial attention. The premise behind the transfer is that the nature of the instruction and training is more closely related to the types of worker training programs that the Department of Labor funds, rather than the "academic" instruction accessed through the use of Title IV student aid. Several issues have emerged regarding such proposals:

- *It appears unlikely that the resources allocated to vocational/technical students under Title IV would necessarily be allocated to them in a Labor Department program.* Students in these Labor-managed programs might be subjected to underfunding, particularly if they are competing for resources with other vocational programs. Furthermore, it is unlikely that the level of Title IV resources would remain the same if vocational/technical students are moved. Instead, the total allocation of funds for students is more likely to be a zero-sum game, given the current budgetary climate.

- *Administration of the program would be complicated for both participating students and institutions.* A student could be receiving aid from both the Departments of Labor and Education, increasing the bureaucracy needed to provide students with necessary assistance, and the administrative and regulatory burden on institutions.

- *Differential regulation could create a backlash for traditional higher education institutions*. In creating separate standards for one segment of postsecondary education, it is possible that they could then be applied to others, increasing the regulatory burden for all schools.

COST CONTAINMENT: Concern about growth in the cost of attending college has prompted proposals to establish a federal mechanism to curb the growth in costs of attendance. Recent proposals have included the development of a federal student aid maximum, and the limitation of tuition and fee levels to which student aid can be applied at institutions. Concerns expressed about a federal role in containing higher education costs include:

- *The determination of costs of attendance is not a federal responsibility*. A departure from this long-standing approach to student aid could result in an unprecedented intrusion by the federal government into the affairs of colleges and universities.

- *Aid maximums could result in a redistribution of aid*. Institutions that would be most affected by a cap on the overall amount of federal aid a student could receive are those that rely most on federal student aid dollars. Many two-year institutions, which generally have lower tuition and fee charges, would be greatly affected, while some of the more financially secure four-year institutions probably would not be as significantly impacted.

- *There is no established relationship between college cost increases and the availability of federal student aid*. Years of research have shown no conclusive relationship between increased federal student aid opportunities and the growth in college costs, particularly in collegiate institutions. In fact, from 1980 to 1986, when average tuitions grew at their fastest rate in three decades, growth in Title IV aid awarded was the lowest since the creation of the programs in 1965.

- *Aid maximums already exist in the current programs*. As they are currently authorized under Title IV, all of the federal student aid programs have individual award limits. Institutions and students are therefore already restricted in their participation in these programs.

As the reauthorization approaches, a careful assessment of the objectives, mechanisms, and effects of Title IV programs is necessary. This assessment must carefully balance the desire for reform with an analysis of the likely improvements to higher education access that would result from such changes. Absent such an analysis, the reauthorization of the Higher Education Act will simply devolve into discussions about proposals that are not related to the basic goals of the student aid programs and which extend beyond the purview of the federal government.

INTRODUCTION

The Advisory Committee's responsibility with respect to maintaining access and assessing policy proposals is vital as the next reauthorization of the Higher Education Act (HEA) approaches. As the authorizing legislation for the federal government's investment in student aid, the HEA defines much of the nation's higher education policy. Each reauthorization allows the opportunity to review the scope and content of the programs and policies that comprise the federal government's role in higher education. But the challenges which higher education presents today are much different than when the HEA was created 30 years ago. The composition of the student population has changed greatly, and so, too, has the nature of postsecondary institutions. While the 1997 reauthorization must take these changes into account when reviewing the nation's higher education policy and reshape programs and policies accordingly, the goal of universal access must still be maintained and furthered.

Congress, the Department of Education, and the higher education community all have begun preliminary planning for reauthorization. Proposals regarding the future role of the federal government and the status of student aid programs are beginning to emerge. To assist the Advisory Committee in fulfilling its charge, this paper serves to analyze the ideas and proposals that comprise the current policy environment and their possible effects on access to higher education.

The policies and proposals reviewed in this paper can be divided into several categories: those that change the delivery of aid (graduation-contingent aid & differential treatment of vocational and technical programs), those that recast the federal role in student aid (block granting student aid & using student aid as a cost containment device), and those that restructure eligibility for individual programs (modification of the Pell Grant program & elimination of aid for remediation). Regardless of their individual objectives, all of the proposals appear to share a common goal of utilizing student financial aid to address complex social issues that are generally tangential to issues concerning equal access to higher education. If enacted, many of these proposals could result in the redistribution of aid resources away from the neediest students, and in combination with each other, could seriously impede access to higher education for these students.

For the most part, the ideas currently circulating do not represent new analyses of the shortcomings of the current student aid system; rather they recycle ideas presented in previous reauthorizations and other policy discussions. As such, analyses offered in this paper focus on the impact of recent proposals, and their antecedents, on access to postsecondary education. The structure of this paper presents the main ideas currently being discussed, briefly outlines the objectives and content of each idea, and notes the previous iterations of the proposal. The analysis focuses specific attention on the effects that such proposals may have, and summarizes why the objectives and the suggested mechanisms could have unintended negative impacts on access to higher education.

GRADUATION-CONTINGENT STUDENT AID

One of the policy ideas frequently discussed is the concept of making the receipt of financial aid dependent upon the completion of a degree. This idea emanates from concern about the status of access to the nation's postsecondary institutions: despite the fact that students are entering higher education in increasing numbers, consistently only slightly more than half complete their degree. Therefore, the objective of graduation-contingent aid proposals is to encourage greater persistence among postsecondary students by providing "incentives" for completion. Recent policy discussions have proposed that all students demonstrating need receive aid in the form of loans. Upon completion of their degree, students would receive an amount of loan forgiveness equal to their initial need. Students could receive additional grant aid--or, more accurately, additional "loan forgiveness"--for academic performance.

Graduation-contingent aid has been proposed several times in the last decade. Perhaps the best known version was forwarded in a Change magazine article in 1989 by Fred Fischer, an analyst for the Office of Budget and Management in the 1980s. Although components of these proposals may differ in some details, the same structural flaws that prevented the idea from progressing previously remain. These include:

The "incentives" provided by a graduation-contingent aid system are questionable. Giving grant aid to students who graduate supplants the apparent incentive inherent to completing a degree: advanced education brings increased earnings. The demands of the workforce and the desire for increased wages should be compelling enough for students to invest in themselves and their education. The role of student aid, in particular grant aid, should be to help remove the barriers that prevent low-income and disadvantaged students from attending postsecondary education, not rewarding those students who have the greatest ability to repay their student loans. A recent report by the U.S. General Accounting Office (GAO) demonstrates the impact of grant aid on persistence, particularly for first-year students: additional grant aid of $1,000 for a low-income student reduces the dropout probability by 14%, and the same award given in the first year decreases the dropout probability by 23%, compared to 8% in the second year and no discernible effect in the third year. GAO reports that a similar increase in loans "did not significantly affect a student's probability of dropping out."

Furthermore, programs based on the loan-forgiveness concept of a graduation-contingent aid system have met with limited success as the "incentive" has failed to attract many students. For example, under the Perkins Loan program, students have been offered loan forgiveness of certain portions of their student loans in exchange for teaching in specific areas of the country and in designated fields, or for serving in the military. However, few students have taken advantage of this program, despite significant loan burdens. Since 1973, only two percent--approximately $272 million--of the more than $14.1 billion awarded in Perkins loans have been canceled by service in the military or as a teacher. This suggests that those students who have taken part in loan forgiveness

programs probably would have served in the designated areas and/or fields of their own accord.

A graduation-contingent aid system assumes that the factors influencing degree completion are primarily under the control of the student. In fact, extensive research by Tinto and others in the areas of persistence and retention has shown that many factors influence a student's decision to remain in school. Tinto characterizes persistence as a rich and complex process, influenced by social, educational, demographic, and economic issues. A graduation-contingent aid system suggests that student aid is *the* definitive factor; in reality, for many disadvantaged students, financial aid cannot compensate for all of the factors that work against student retention and persistence.

Graduation-contingent aid could negatively impact access to higher education for disadvantaged students. By placing higher requirements on students with need, without a parallel requirement for those students who do not need assistance, this proposal holds needy students to a higher standard. For example, at public institutions, admissions standards would not rise, but more affluent students would still receive the tuition subsidy built into public sector costs of attendance, regardless of whether they complete their education. Indeed, under such a proposal, federal grant aid could become a merit-based system because, in order to receive assistance in any form other than loans, students would have to achieve at an undetermined level. Conditional aid could inhibit some needy students from even enrolling for fear they would not complete a degree and would be saddled with loan debts.

In addition, this proposal could hurt the fastest growing population in higher education today, the nontraditional student cohort. These students are often older, financially independent, and attend on a less than full-time basis to accommodate non-academic commitments such as work and family. Not receiving grant aid until the completion of a degree could create a hardship for this group of students--in which minorities and women are highly represented--since, by definition, they will take longer to complete a degree, and would be responsible for the interest costs of their loans while enrolled.

Graduation-contingent aid could increase debt burdens and defaults for the neediest students. Under graduation-contingent aid, students who do not achieve a degree would be responsible for repaying the total amount of assistance received through loans. Research has shown that those students who do not complete college are the most likely to default on their loans. Given that almost half of all students who enroll in postsecondary institutions do not complete their education, this approach virtually ensures that the number and dollar amount of defaults would increase. Students who drop out and default probably would never be able to access higher education again.

FEDERAL STUDENT AID BLOCK GRANTS

Block grants have become a popular public policy vehicle in the last few years, as the Congress has looked to reduce the role of the federal government in many social policy areas. Student financial aid has not been immune to this idea; in the 1992 reauthorization, the State Higher Education Executive Officers' association proposed block granting federal student aid. More recently, several members of Congress have introduced legislation promoting student aid block grants, and this idea also has been included among the numerous ideas suggested for consideration during the 1997 reauthorization.

In the area of student financial aid, the objective of creating a block grant system would be to reduce the federal government's role in higher education and provide states and institutions with more flexibility in the awarding of student aid. The proposed block grant mechanisms vary, but their basic operation is the same: resources from several or all current federal student aid programs are combined into a block grant program and awarded to states to distribute according to certain broad guidelines. Block granting student aid would mark a dramatic departure from the federal government's role in providing student aid and promoting access. Block grants would essentially transfer control of the sizable federal investment in financial aid to the individual states. Several issues emerge in this reconfiguration of the federal role in student aid:

The federal role in higher education varies significantly from the government's role in other program areas that have been block granted. In other policy areas where block granting has taken place, such as community development, the primary role of the federal government has been to provide money to support the unique initiatives of individual states. However, in student aid, the federal government serves several key functions beyond providing over $30 billion in funds annually: it provides the framework and delivery system for other aid sources, including states and institutions, a national delivery system for federal aid awards, and through the Free Application for Federal Student Aid (FAFSA), a central data collection and analytical device that allows states and institutions to gather essential information from a disparate population. Transferring these responsibilities back to the states and institutions would represent a reversal of the 1992 reauthorization, which had centralized these tasks after it had been found that multiple need analysis models were burdensome and inefficient. States have voluntarily moved to using the federal need analysis and delivery mechanisms: in 1993-94, 43 states used the federal methodology to determine need in state student aid programs.

However, perhaps the most important change that a block grant program for student aid would present is the erosion of the federal role in promoting equal access to postsecondary education. Access has long been the driving force behind all federal student aid policies and programs. But under a block grant system, access would become a state responsibility, thereby diffusing the focus of access into 50 or more different approaches. The longstanding role of states in higher education has been to promote access through the provision of affordable education at state-run or funded institutions. In addition, many states provide

student aid, but eligibility usually is restricted to citizens of the state. Furthermore, states use their student aid programs not only to further the goal of access but to accommodate additional public policy goals, such as economic development and specific workforce/manpower needs that a particular state may be facing.

Under a block grant system, the national goal of equal access to higher education would be eliminated. Regardless of the states' actions, by reining in the federal government's role in promoting access, the 30 year national effort to make college possible regardless of economic means would be abandoned.

The history of federal block grants suggests that student aid block grants would be subjected to declining resources. Since the 1981 Omnibus Budget Reconciliation Act, when the majority of the current federal block grants were created, funding levels have decreased while new federal programs have been created that replicate the old programs consolidated into block grants. For example, programs under Chapter 2 of the Elementary and Secondary Education Act were block granted in 1981; by FY 1995, funding for Chapter 2 had declined in real terms by 50%. In addition, over that time period, Congress created several new programs that duplicate the programs consolidated in 1981, thereby negating one of the key reasons for block granting the Chapter 2 programs.

Under a block grant program, states must assume greater fiscal responsibility, particularly if the federal government reduces its support. If federal funding levels for student aid were reduced under a block grant system, the burden would fall to individual states to make up any funding shortfalls. Many state budgets are already strained, and Congress is looking to the states to assume greater responsibilities for other social programs. Given this scenario, it is unlikely that the states' limited resources could cover the remainder of the federal government's share, let alone fulfill their own funding obligations for student aid. The dramatic increases in tuition at public institutions over the past several years offer significant evidence that states may not be able to shoulder this burden without negatively impacting access to higher education. At the state level, merit and other criteria are used to ration scarce funds. With restricted eligibility and reduced grant aid opportunities, students once again would have to increase their reliance on loans to finance their education. Both of these actions could have significant negative consequences on access to postsecondary education.

Focusing student aid at the state level could promote unequal treatment of students. Although most proponents of student aid block grants support the portability of aid across state lines, the level of support that different states offer could result in students with the same needs being treated differently. Currently, less than 40% of the states have a policy to allow students to use grants out of state; of those 40%, even fewer actually fund that provision due to limited resources. With state control of student aid funds, varying standards and procedures could be applied throughout the states, whereas under the present system the same award maximums, need analysis, and regulations apply to all federal programs, which constitute more than 75% of student aid awarded from all sources.

Current student aid "block grants" like the State Student Incentive Grant (SSIG) program have been poorly funded for more than a decade. Another variation on the block grant idea that has been proposed is the creation of a super SSIG program. Building on the concept of the current program--federal matching dollars encourage states to invest in their own student aid programs--this proposal would combine other federal student aid, including Pell Grants and campus-based programs, with SSIG funding into one large program. But SSIG is a program that enjoys little congressional or Administration support. Every President since 1981 has proposed eliminating funding for this program, and in the current Congress, lower funding levels reflect the diminished standing of this program. It is doubtful that such a dramatic overhaul of the program, entailing a sizable influx of funds, would have much political support. In 1994-95, total aid awarded through SSIG was the same as in 1980-81--$73 million--a real dollar decline of more than 50%.

REMEDIATION

The treatment of students enrolled in remedial courses and programs by federal student aid programs has been widely discussed since the 1992 reauthorization. Remediation was a central point of discussion in the Administration's Phase II agenda in the fall of 1994, which focused on prohibiting the use of federal funds for remedial coursework, both at the student and institutional levels. Currently, states are struggling with the issue of using state funds for remediation. For example, California, New York, and Massachusetts all have taken steps recently to change admissions standards and redefine remedial instruction.

Recent proposals regarding remediation focus on precluding remedial students from borrowing and participating in work-study programs, and contracting with institutions to provide remedial instruction. The underlying objective of such proposals appears to be to better target limited resources on students doing "college-level" work. However, numerous concerns have been raised about this approach, including:

Eliminating aid for students in remedial courses or programs could negatively impact both access and retention for low-income students. As a 1991 Aspen Institute paper by Hauptman and McLaughlin asserts, "support services such as remedial tutoring have a positive effect on the enrollment and retention of students, especially those from low-income families." Students who have gained access to some form of postsecondary education, yet are in need of remedial instruction due to poor secondary instruction, are often from the lowest socioeconomic groups. A recent report from the American Council on Education (ACE) reveals that students participating in remediation "were more likely to be from low-income families, born outside of the United States, speak a language other than English at home, and attend a two-year institution." For many of these students, persistence towards a degree is often contingent upon the completion of one or two required remedial courses as part of their curriculum; if aid opportunities are limited, access for such students, already challenged by numerous other obstacles, could be further impaired.

A student's need for remediation does not preclude academic success. A study conducted by the Texas Higher Education Coordinating Board of the retention and success rates of students who participated in remediation showed strong academic performance. Students who completed required remediation performed at levels generally comparable to students who did not require remediation and earned certificates and associate degrees at a higher rate proportionately. While the proportions that earn baccalaureate degrees are lower, these students remain in school longer and perform at the same level when given additional time to complete their degrees.

A substantial number of students could be affected by this policy change. The ACE report on remedial education illustrates that about 1 6 million students--13 percent of all undergraduates--participated in at least one remedial or developmental course during the 1992-93 academic year. In addition, a 1994 survey of community colleges indicated that a sizeable portion of students receiving aid are classified as remedial; at these institutions, 48% of the Pell Grant recipients and 43% of Title IV aid recipients were enrolled in remedial courses or programs.

Federal restrictions on student aid for remediation would entail defining what constitutes "remedial." From campus to campus, the definition of remediation varies. For example, calculus probably would not be considered remedial at a community college, but at an institution such as MIT, it could be. In order to enforce a restriction on the use of aid for participation in remedial or developmental classes, some type of federal "standard" would need to be established. This would require the federal government to become directly involved in the content of curriculum, an area in which any government intrusion is unwelcomed by institutions and that is well outside the domain of the aid programs.

Alternative mechanisms suggested as replacements for student aid--such as contracting with institutions to supply remedial instruction--virtually assure that most students would not be served. Currently, students' needs for remediation are met through instruction at their institutions. The federal TRIO programs are the most common resource for colleges and universities. But even these programs, which are well established and highly respected, are limited in their impact due to their inability to meet demand: the 1992 Conference Report on the HEA states that fewer than 5% of eligible youths and adults are served by TRIO programs. By relegating students to a remedial system that is guaranteed to fall short in meeting student demand, the majority of students in need of remediation would not be served.

Restrictions on the use of student aid for remedial education already exist under current law. The impact of eliminating aid for remedial students would be dramatic on an individual level; for these students, access to postsecondary education could be reduced. However, the budgetary impact of eliminating aid for remedial students would likely be minimal, since students are already limited to one year of remediation under current law. Furthermore, extended participation in remediation and continued receipt of assistance is already curtailed through program regulations. The "satisfactory academic progress" provisions limit

continued participation in federal student aid programs to those students who are achieving at levels set by the regulation and determined by the institution they attend.

MODIFICATION OF THE PELL GRANT PROGRAM

The Pell Grant program has been the cornerstone of the federal government's investment in student aid. Once considered the floor of financial support for needy students, Pell Grants have languished as growth in college costs has outstripped funding for the program. Because funding levels have not kept pace with rising costs, many modifications to the program have been suggested. Two of the most prominent proposals are frontloading grants, and limiting eligibility by program length and type.

Frontloading grants would provide grant aid only for those students in their first and second years of college. The savings gained by eliminating third and fourth year students would be put towards larger grants for entering students. Frontloading was supported initially by House Education and Labor Committee Chairman William Ford in the 1992 reauthorization. The higher education community offered a variant of this proposal--a "step-down" strategy that featured higher grant maximums in early years and lower maximums for students enrolled in later years. Similarly, limiting eligibility by program length and type has been discussed frequently since the late 1980s. Several categories of students would be excluded from participating in the grant programs, including those enrolled in non-degree programs, and/or programs of less than two years in length. Concerns that have emerged about such modifications include:

Frontloading grant aid could decrease persistence for third and fourth years students. One of the goals of frontloading is to encourage disadvantaged students to participate in higher education without accumulating debt in the first two years, the period during which most dropouts occur. Research by GAO has shown grant aid to be more effective than loans in positively influencing student persistence in the first and second years. But while frontloading may encourage persistence and reduce the need for loans among entering students, and thus, lessen their incidence of default, the loan burden that must be assumed to continue on to completion could be a powerful disincentive for students in their third year and beyond. Many students drop out for reasons other than financial concerns; frontloading would not necessarily impact these students and promote retention. Frontloading thus could serve to compound the problem that the higher education system currently endures: increased enrollment rates, but stagnant retention and completion rates.

Frontloading could be more expensive to the federal government than the current system. If frontloading were extended to first and second year students in all sectors, the increased federal investment needed would be substantial. This is because more students are enrolled in the first and second year of college than in the later years. In the long run, through either increased loan burdens or fewer students completing their degree, the costs to society could be much greater than anticipated.

Eliminating grant eligibility for students enrolled in non-degree programs, and/or programs less than two years in length, could increase reliance on loans and reduce persistence. Low-income, minority and disadvantaged students comprise the majority of students enrolled in non-degree and less than two-year programs. Many of these students enroll in these programs to increase their knowledge and skills base, with the ultimate goal of improving earning power. The availability of grant aid enables students to participate in these programs without assuming significant amounts of loan debt, lessening the possibility that the quality of education and training they receive will leave them with increased debts, but not increased income. But the removal of grant aid could cause students to choose to forego additional education; the consequences of such a decision would have an effect not only on the individual students but the nation as a whole through a less skilled labor force and increased spending on social programs.

Further, non-degree and less than two-year programs are almost exclusively found at community colleges and proprietary institutions. Eliminating grant eligibility for students in these programs would eliminate most students at these institutions from federal aid. Such a restriction would impede access to postsecondary education by limiting these students' options to only those institutions they could afford through personal or family resources.

DIFFERENTIAL TREATMENT OF VOCATIONAL/TECHNICAL STUDENTS & PROGRAMS

Since the creation of the Title IV programs, analysts have debated the treatment of students in noncollegiate institutions and programs. In recent years, the notion of relocating programs and institutions involved in vocational and technical instruction to the Department of Labor has received substantial attention. The premise behind the transfer is that the nature of the instruction and training is more closely related to the types of worker training programs that the Department of Labor funds, rather than the "academic" instruction accessed through the use of Title IV student aid.

The Clinton administration has supported this idea, offering a "Skills Scholarship" program for vocational and technical students that would mirror the Pell Grant program. Other policymakers have gone so far as to suggest a merger of the Education and Labor Departments. Some members of the higher education community also have supported differential treatment, since it could assist in eliminating proprietary institutions from the current Title IV student aid system. Nevertheless, several important concerns about this approach have emerged. These include:

It appears unlikely that the resources allocated to vocational/technical students under Title IV would necessarily be allocated to them in a Labor Department program. Under a proposal that relocates vocational/technical students to the Labor Department, there is no assurance that resources allocated to them under Title IV would move with them. Students in these

Labor-managed programs might be subjected to underfunding, particularly if they are competing for resources with other vocational programs.

Furthermore, many supporters of this interagency transfer appear to assume that the level of Title IV resources would remain the same; that is, the Title IV funds currently used by vocational/technical students, if transferred, would be replaced. However, if vocational/technical students are moved, the total allocation of funds for students is more likely to be a zero-sum game, given the current budgetary climate. In fact, under the proposed Skills Scholarship program, a percentage of the funding for the Pell Grant program would be used to assist the vocational/technical students through the Labor Department, but those resources would not be restored to academic students.

Students eligible for a program like Skills Scholarships probably would not have the same level of funding as in the Pell Grant program. Unlike the Pell Grant program, which is a quasi-entitlement, students qualifying for vocational/technical assistance would be provided with aid only up to the point that funds were available within their state and from federal appropriations; there would be no assurance of grant funding. Even more troubling, states would have the option of not participating in the program, so needy students in some states would have no access to grant aid.

Administration of the program would be complicated for both participating students and institutions. Many students at community colleges take classes from both academic and vocational/technical curricula. Therefore a student could be receiving aid from both the Departments of Labor and Education, increasing the bureaucracy needed to provide students with necessary assistance. The increased administrative and regulatory burden on institutions could drain resources, and ultimately have significant negative effects on students.

Differential regulation could create a backlash for traditional higher education institutions. Additional efforts to address the variances between the vocational/technical and academic programs include subjecting vocational technical programs and institutions to differential regulation. The assumption inherent in these proposals is that higher education institutions are held to unnecessarily burdensome levels of federal regulation, particularly in areas that target fraud and abuse, that are largely the result of concerns with noncollegiate institutions. This reasoning has cultivated the creation of such measures as "LS&T" (limitation, suspension, and termination) procedures for institutions with exorbitant default rates, and the "85-15" rule, which limits the percentage of federal funds that can comprise an institution's financing. More recently, regulations concerning default rates for the Ford Federal Direct Loan Program have established higher thresholds for proprietary institutions. This circuitous manner of dealing with such institutions could result in the same conclusion as moving these programs to the Department of Labor: they would not be eligible to participate in Title IV programs.

The predicament of differential regulation is that in creating separate standards for one segment, it is possible that they could then be applied to all institutions, increasing the

regulatory burden for all schools. For example, the establishment of higher standards for noncollegiate institutions has been met with enthusiasm on Capitol Hill. In fact, the new standards have prompted calls for legislation that apply those same standards to all postsecondary education institutions, not just the non-degree granting schools.

COST CONTAINMENT

A frequent source of concern among policymakers, students, and families has been the escalation of college costs over the last two decades. First at independent institutions, and more recently at public college and universities, growth in the cost of attending college has outpaced the rate of inflation and increases in personal incomes. Concurrently, there has been limited growth in financial aid awards, thereby inhibiting students' ability to pay for college. The substantial resources needed to pay for higher education have prompted proposals to establish a federal mechanism to curb the growth in costs of attendance.

Recent proposals have included the development of a federal student aid maximum, and the limitation of tuition and fee levels to which student aid can be applied at institutions. Such proposals date back at least to the early 1980s, when officials of the Reagan administration first indicated support for some type of cost containment vehicle. The use of federal student aid to contain costs has generated criticism on several fronts, including:

The determination of costs of attendance is not a federal responsibility. The setting of tuition, and other items included in students' costs of attendance, has traditionally been a matter left to states for publicly-funded institutions, and the institutions themselves in the case of independent colleges and universities. The federal government has set policy that has responded to cost increases, such as raising student loan program limits, and creating new programs to enable more students to borrow. But the federal government has left it to the states, through the interaction of legislatures, institutions, and other necessary governing boards, to determine feasible charges for students, given economic circumstances and public policy priorities. A departure from this long-standing approach to student aid could result in an unprecedented intrusion by the federal government into the affairs of colleges and universities.

Aid maximums could result in a redistribution of aid. Institutions that would be most affected by a cap on the overall amount of federal aid a student could receive are those that rely most on federal student aid dollars. Many two-year institutions, which generally have lower tuition and fee charges, would be greatly affected, while some of the more financially secure four-year institutions, particularly in the independent sector, probably would not be as significantly impacted. The lower cost, two-year institutions are the point of access for many lower-income, disadvantaged, and nontraditional students; therefore the burden of an aid maximum would fall on these students. Their access to affordable postsecondary options would be limited to those institutions that were compelled to keep their total costs low.

There is no established relationship between college cost increases and the availability of federal student aid. Years of research have shown no conclusive relationship between increased federal student aid opportunities and the growth in college costs, particularly in collegiate institutions. In fact, from 1980 to 1986, when average tuitions grew at their fastest rate in three decades, growth in Title IV aid awarded was the lowest since the creation of the programs in 1965. Thus using federal student aid maximums to control costs would be inappropriate since the availability of aid is not one of the primary factors contributing to the rapid escalation of college costs.

Further, current trends in the price-setting behavior of institutions suggest that the marketplace is already regulating cost increases. Several institutions recently have announced cuts in their tuitions, while even more colleges and universities have announced efforts to limit tuition increases to inflation.

Aid maximums already exist in the current programs. As they are currently authorized under Title IV, all of the federal student aid programs have individual award limits. Institutions and students are therefore already restricted in their participation in these programs.

CONCLUSION

The reauthorizations of the Higher Education Act that take place every five years represent an important opportunity to review the objectives, mechanisms, and effects of the Title IV student aid programs. The reauthorization that begins next year will be yet another critical check point for the programs as they enter the 21st century.

The proposals recently discussed in anticipation of next year's reauthorization have presented an array of options for consideration. For the most part, these proposals do not represent "new" ideas but rather recast proposals forwarded during prior reauthorizations and policy discussions. The ideas that have recurred in these discussions were rejected in their previous iterations because they were determined to have unintended negative effects on access. In many cases, these unintended effects arose because the proposals were designed to have broader social and economic effects than what federal student aid programs were designed to do.

Individually, many of these proposals could significantly impact the more than three decades of success achieved by the Title IV programs in promoting access to higher education. However, even more troubling is the prospect that combinations of these proposals could emerge. For example, eliminating aid for students in remedial courses or programs while at the same time making grant aid contingent upon graduation could have disastrous consequences for the low-income, disadvantaged students who require remediation. These students, who traditionally have faced substantial barriers to both access and completion, could face the prospect of no assistance or loan aid entirely. Such a combination would represent an abandonment of the Title IV programs' basic goals.

As the reauthorization approaches, a careful assessment of the objectives, mechanisms, and effects of Title IV programs is necessary. This assessment must carefully balance the desire for reform with an analysis of the likely improvements to higher education access that would result from such changes. Absent such an analysis, the reauthorization of the Higher Education Act will simply devolve into discussions about proposals that are not related to the basic goals of the student aid programs and which extend beyond the purview of the federal government.